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Peanut Update

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Report Highlights: Forecast MY 2003/04 peanut production has been revised downward to 90,000 metric tons based on reduced planted area, lack of financing, and insufficient government supports relative to other crop options. Mexico is primarily a market for peanuts as snacks rather than processing for oil or meal. While the United States has the largest share of the Mexican import market for peanuts, competition from China and other countries such as Argentina and Nicaragua has increased in recent years.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Mexico [MX1]
[MX]

ECONOMIC OUTLOOK

Mexico's economy improved from a stagnant GDP growth rate in 2001 to a growth rate of about 1 percent in 2002. Projections for 2003 are for annual growth of 1.2 to 1.6 percent. This is in sharp contrast to the growth Mexico experienced in the late 1990s. Between 1996 and 2000, Mexico achieved an annual economic growth of 5.5 percent and retail sales increased almost 5 percent annually. Currently, the Mexican economy is showing mixed signs of recovery. Retail sales, which did not grow in 2002, have been strong in 2003, and are projected to grow 3.7 percent for the year. However, the official unemployment rate has grown to 3.5 percent, its highest level in eight years. Most experts are projecting that the Mexican recovery from the stagnant growth in 2001 will continue, but are tying this recovery to continued strengthening in the U.S. economy.

PEANUT PRODUCTION

The production estimate for MY 2003/04 (Sep-Aug) has been decreased to 90,000 MT, due to lower-than-expected planted area, a lack of financial credit, and insufficient governmental supports relative to other crops. Moreover, Mexican growers are experiencing increased competition from low-priced imported peanuts from China, Argentina, and Nicaragua. Sources see little chance for near-term increases in production. MY 2002/03 planted and harvested area and production estimates have been reduced as a result of abnormally dry weather in the northern states during the spring/summer cycle. Similarly, the production estimate for MY 2001/02 has been revised downward based on the most recent official data. The Secretariat of Agriculture, Livestock, Rural Development, Fishing and Food Stuffs (SAGARPA) does not monitor peanut production regularly, but eventually publishes annual production data.

In Mexico two crops of peanut are grown annually: a spring/summer cycle and a fall/winter cycle. The five states accounting for the majority of the spring/summer peanut production are Chiapas, Puebla, Oaxaca, Chihuahua and Sinaloa. Approximately 95 percent of peanut production is grown in the spring/summer cycle (Apr-Aug) and harvest takes place October through December. Weather is a key factor in peanut production given that over 85 percent of Mexico's peanut area is un-irrigated.

Outside a few of the northern states that have irrigation and modern growing practices, peanut is planted by hand or mule on small plots, mainly in the southern states of Chiapas and Oaxaca. Small farmers do the majority of Mexican production on a subsistence basis. According to industry sources, Mexico lacks the financing, infrastructure and modern growing practices needed to sustain the type of expansion that would make the country a player in the world market. Most Mexican farmers do not use modern practices that have come to be associated with quality-produced peanuts. Moreover, aflatoxin continues to be a problem, particularly in peanuts produced in southern states.

Yields around the country vary quite a bit. Average yields, however, are expected to be approximately 1.43 MT/ha in 2003/2004 compared to 1.20 MT/ha during the previous year. This estimate assumes a normal peanut crop that would result from normal weather conditions. According to industry sources, average costs for irrigated areas in Chihuahua are between 7,000 - 8,000 pesos/ha (US\$ 625 -715 /ha). There is no available information on production costs in rain-fed areas.

Mexico produces two varieties of peanuts: Runner and Virginia. Runners have a large kernel and are grown mainly in the northern state of Chihuahua, while Virginias predominate in the southern states. Virginias have the largest kernels and account for most of the peanuts that are roasted and eaten inshell.

Production Policy

Peanut producers receive subsidies from the direct support program, PROCAMPO, which covers peanuts and other crops (See MX 2037). According to official sources, a flat per hectare payment of 905 pesos (US\$ 81/ha) is available to farmers for the spring/summer 2003 crop cycle and for the fall/winter crop of 2002/03. This payment is 3.5 percent higher than what SAGARPA paid during the same period in 2001/02. SAGARPA also indicates that farmers with producing areas between one and five hectares will receive a slightly higher payment of 1,030 pesos per hectare (US\$ 92/ha).

Consumption

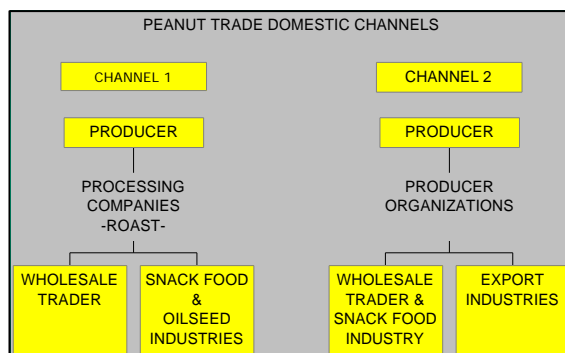
The consumption estimate for MY 2003/04 has been revised downward to 164,000 MT from previous estimates as a result of the economic slowdown and sluggish consumer demand. Peanut processors are facing a slowdown in the economy, with more competition from other snacks and weaker purchasing power. Similarly, consumption estimates for 2001 and 2002 have been adjusted downward.

Consumption is oriented to the edible - food use - market, mainly as a snack. According to industry sources, at least 85 percent of peanuts are consumed as snacks in Mexico. Consumers eat a wide variety of plain, salted and spiced peanuts. "Japanese-style" peanuts, which are coated and fried, are extremely popular as a snack food. Potato chips are the most popular snack food, accounting for 35-47 percent of all snack food sales in Mexico. Corn chips follow closely with 21-25 percent of the market; corn puffs and similar products cover 11-18 percent. The remaining popular snack categories include spiced peanuts, popcorn, mixed nuts, broad beans, chickpeas, fruits, seeds and other non-generic products. (See MX3310). Only a very small amount of peanut production is used for oil and meal.

Also, peanut candies (such as Marzipans) are consumed mainly during the Christmas season. Shelled peanuts are a very important "fruit" for the Christmas season because it is one of the basic components for Piñatas. Moreover, peanuts are becoming a nutritional complement in granola bars and other sports specialty products. According to a consumer research of the American Peanut Council (APC) in Mexico, peanuts are perceived as fun tasty products, but are not considered to be a nutritious food. This is a result of the peanut image of being a good snack in bars, with beer, or at sporting events (sales increase during sports seasons). Peanuts are also consumed as snacks in schools and during big city traffic jams (peanuts are often sold by street vendors). Peanuts also have a niche market among athletes. Peanut butter is not used widely in Mexico, but imported U.S. product can be found in many major supermarkets.

Marketing and Processors

The marketing chain from the producer to processor and/or sheller is shown in the following chart, where Channel 1 corresponds to small farmers from the center and southern states, while the Channel 2 is for those more developed farmers in the northern states of Chihuahua and Sinaloa. Virtually no peanut production goes to oil and meal production.



There are many peanut processors, who process and pack main brands such as, Mafer-Sabritas (Frito Lay), Ricolino-Barcel, Cubero, Nippon and Dulces de la Rosa. These processors test the producer's shipments for aflatoxin. The big non-branded manufacturers (i.e. De la Rosa and Cubero) produce for the brand owners and a large number of small manufacturers and hundreds of artisan producers. Also, small players, spread throughout most of the big urban areas, buy peanuts for processing or packing for small mom and pop stores or for street vendors.

Many peanuts are processed and packed in 500-gram bags for retail sale. However, there are more optional packaging presentations. Main processors package both family-size bags and smaller individual packages. One of these main processors, for example, has the following peanut packing - presentations:

Product	Net Weight Per display/Bag
Peanut with salt	19 –Oz. Bag or 540-gram bag
Peanut with Chili	19 –Oz. Bag or 540-gram bag
Peanut with Shell	19 –Oz. Bag or 540-gram bag
Japanese Peanut	20.74- Oz. Bag or 588-gram bag
Nishiyama Japanese Peanut	25.39 Oz-bag or 720-gram bag
Peanut with salt	31.74-Oz. Bag or 900-gram bag
Peanut with salt	31.74-Oz. Bag or 900-gram bag
Peanut with shell	31.74-Oz. Bag or 900-gram bag
Japanese Peanut	31.74-Oz. Bag or 900-gram bag
Fried Peanut	15.87-Oz. Bag or 450-gram bag
Nuts Peanut	15.80-Oz. Bag or 488-gram bag

The principal channel for consumer-ready snack food sales in Mexico is the retail market, with most snacks being sold through wholesalers in central markets (*centrales de abasto*) to mom & pop and corner grocery stores; about 85 percent of all snack food sales are made through these outlets also known as *abarrotes* or *tienditas*. Convenience store chains, offering a wider variety of products, using promotions and discounts, and having extended store hours, are increasingly replacing these small locally owned stores.

TRADE

The MY 2003/04 peanut import estimate has been revised downward to 75,000 MT, because of the expected increase in production (compared to MY 2002/03). Most imported peanuts are imported in shelled form by the major industrial processors, then roasted, seasoned and packaged for retail sale. Import estimates for MY 2001/02 and MY 2002/03 were revised upward based on official trade data from the Secretariat of Economy (SE).

The United States has been the leading supplier of peanuts for several years. High-quality product and a reputation as reliable suppliers have helped U.S. suppliers in the Mexican market. However, China has emerged as the major competitor to the U.S. in this market in the last two years. According to SE's official information, for example, approximately 32 percent of total Mexico's peanut imports were imported from China in MY 2002/03 compared to 27 percent a year earlier. This trend has continued in CY 2003, as China continues offering good quality and low-priced shelled peanuts. Similarly, Nicaragua and Argentina have continued to be two main suppliers because their competitive prices. The increase in Chinese and other countries imports have come at the expense of imports from the United States. According to industry sources, U.S. peanut prices have started to become uncompetitive in recent years. Mexico's import decisions for oilseeds (including peanuts) and products continue to be based on price and the availability of credit, rather than quality or strong consumer preferences.

Under NAFTA, the United States established a duty-free TRQ for Mexican peanuts (shelled/in-shell). This TRQ quantity has increased 3 percent per year and over-quota duties will decline by 15 percent each year until their complete phase-out in 2008. Mexican suppliers easily filled the NAFTA peanut quota of 4,406 MT in 2003.

The NAFTA provision which allows unlimited access to the U.S. for paste made from Mexican peanuts continues to be seen as an incentive to both Mexican and U.S. companies to produce in Mexico.

STATISTICAL TABLES

PSD Table						
Country	Mexico					
Commodity	Oilseed, Peanut		(1000 HA)(1000 MT)			
	2001 Revised		2002 Estimate		2003 Forecast	
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin	09/2001		09/2002		09/2003	
Area Planted	78	80	80	64	80	65
Area Harvested	78	79	80	62	80	63
Beginning Stocks	0	0	0	0	0	0
Production	135	120	136	75	136	90
MY Imports	90	89	90	85	90	75
MY Imp. From U.S.	27	39	30	28	30	15
MY Imp. From the EC	0	0	0	0	0	0
TOTAL SUPPLY	225	209	226	160	226	165
MY Exports	3	5	4	0	4	1
MY Exp. to the EC	0	0	0	0	0	0
Crush Dom. Consumption	4	4	4	4	4	4
Food Use Dom. Consump.	218	200	218	156	218	160
Feed,Seed,Waste Dm.Cn.	0	0	0	0	0	0
TOTAL Dom. Consumption	222	204	222	160	222	164
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	225	209	226	160	226	165
Calendar Year Imports	0	82	0	92	0	80
Calendar Yr Imp. U.S.	0	27	0	41	0	22
Calendar Year Exports	0	4	0	1	0	1
Calendar Yr Exp. to U.S.	0	4	0	1	0	1

TRADE MATRIX

PEANUTS, TOTAL H.T.S. 1202.1000, 1202.1099, 1202.2000 & 1202.2001			UNITS: METRIC TONS	
EXPORTS FOR MY 2002/2003 TO:			IMPORTS FOR MY 2002/2003 FROM:	
U.S.	473		U.S.	28,202
OTHER			OTHER	
			NICARAGUA	19,862
			CHINA	15,120
TOTAL OF OTHER	0		TOTAL OF OTHER	34,982
OTHERS NOT LISTED	0		OTHERS NOT LISTED	21,733
GRAND TOTAL	473		GRAND TOTAL	84,917

Source: Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, August 2003.

Note: MY starts on September 2002 and ends August 2003.

PEANUTS, IN SHELL H.T.S. 1202.1001 & 1202.1099			UNITS: METRIC TONS	
EXPORTS FOR MY 2002/2003 TO:			IMPORTS FOR MY 2002/2003 FROM:	
U.S.	112		U.S.	4,007
OTHER			OTHER	
			CHINA	15,120
TOTAL OF OTHER	0		TOTAL OF OTHER	15,120
OTHERS NOT LISTED	0		OTHERS NOT LISTED	126
GRAND TOTAL	112		GRAND TOTAL	19,253

Source: Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, August 2003.

Note: MY starts on September 2002 and ends August 2003.

PEANUTS, SHELLED H.T.S. 1202.2000 & 1202.2001			UNITS: METRIC TONS	
EXPORTS FOR MY 2002/2003 TO:			IMPORTS FOR MY 2002/2003 FROM:	
U.S.	361		U.S.	24,196
OTHER			OTHER	
			NICARAGUA	19,862
TOTAL OF OTHER	0		TOTAL OF OTHER	19,862
OTHERS NOT LISTED	0		OTHERS NOT LISTED	21,606
GRAND TOTAL	361		GRAND TOTAL	65,664

Source: Global Trade Information Services, Inc. "World Trade Atlas" Mexico Edition, August 2003.

Note: MY starts on September 2002 and ends August 2003.

PRICES

In-shell Peanut Wholesale Prices												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1998	8.13											9.71
1999											10.00	9.66
2000	9.50											11.18
2001	11.00											11.19
2002	10.44											10.03
2003	8.75											
Source: Servicio Nacional de Informacion de Mercados - SNIIM – Secretariat of Economy.												

Note: Shaded area indicates that prices were not available.

DUTIES & TARIFF RATES

Duties & Tariff Rates by H.T.S for Peanut Imports					
	1202.1001 Peanuts (ground-nuts), not roasted or otherwise cooked, whether or not shelled or broken. In shell Seed.	1202.1099 Peanuts (ground-nuts), not roasted or otherwise cooked, whether or not shelled or broken. In shell Other.	1202.2001 Peanuts (ground-nuts), not roasted or otherwise cooked, whether or not shelled or broken. Shelled, whether or not broken.	2008.1101 Nuts, peanuts (ground- nuts) and other seeds, whether or not mixed together. Peanuts (ground-nuts). Shelled.	2008.1199 Nuts, peanuts (ground- nuts) and other seeds, whether or not mixed together. Peanuts (ground-nuts). Other.
MFN*	Ex.	Ex.	Ex.	23.0	23.0
European Union	Ex.	Ex.	Ex.	5.0/ Ex. **	5.0/ Ex. **
Sweden	EXCL	EXCL	EXCL	EXCL	EXCL
Norway	EXCL	EXCL	EXCL	EXCL	EXCL
Iceland	EXCL	EXCL	EXCL	EXCL	EXCL
Israel	EXCL	EXCL	EXCL	EXCL	EXCL
Guatemala	Ex.	Ex.	Ex.	13.3	13.3
El Salvador	Ex.	Ex.	Ex.	6.6	2.5
Honduras	Ex.	Ex.	Ex.	13.3	13.3
Nicaragua	Ex.	Ex.	Ex.	Ex.	Ex.
Costa Rica	Ex.	Ex.	Ex.	2.0	2.0
Colombia	Ex.	PAR	PAR	2.8/1.4***	2.8/1.4***
Venezuela	Ex.	PAR	PAR	2.8/1.4***	2.8/1.4***
Bolivia	Ex.	Ex.	Ex.	Ex.	Ex.
Chile	Ex.	Ex.	Ex.	Ex.	Ex.
Uruguay	Ex.	Ex.	Ex.	EXCL	EXCL

Notes:

***Most Favored Nation**, as established in Mexico's Import & Export General Tax Law, published in Mexico's *Diario Oficial* (Federal Register) on January 18, 2002.

** For selected commodities originating in the EU, a first tariff rate will be applied if imported from January 1 to June 30, 2003 and a second one, from July 1 to December 31, 2003.

*** Higher duty must be paid for these commodities, if originating in selected countries but the final process performed in Mexico, otherwise will pay the lowest rate.

"EXCL" The import of commodities under these H.T.S. will be subject to an established duty included in Article 1 of the Import & Export General Tax Law without reduction.

"PAR" The import of commodities, originating in the exporting country, under these H.T.S. will receive a 28% preferential tariff.

Source: Other Duties & Tariffs applied as published in the Decree that establishes the tariff rates for 2003 of the Import General Tax from selected countries. Published in Mexico's *Diario Oficial* (Federal Register) on December 31, 2002.